



Paying for and Sustaining a Performance-Based Compensation System

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Two purposes of this new module

1. Help states/districts avoid costly mistakes by demonstrating how to make accurate and reasonable cost projections to ensure that a new pay plan is affordable
2. Suggest steps that states and districts should take early on to secure adequate and stable funding

Why should states/districts project the costs of any alternative compensation plan?

1. Policymakers and the public want reassurance that the compensation system is affordable.
2. Teachers want reassurance that state and district officials will actually deliver earned rewards as promised.
3. Accurate cost projections are especially critical if school systems plan to expand pay programs piloted in just a few schools to all schools in the district or to all districts in the state.
4. Inaccurate cost estimates are much riskier in public education than they are in the private sector.

What choices do states/districts have if they underestimate costs?

1. increase the budget (preferred)
2. reduce the amount of the award that each teacher/school receives (acceptable, but 2nd best)
3. change the qualification requirements so that fewer teachers/schools qualify for bonuses (not recommended)
4. don't pay some teachers who legitimately earned performance bonuses (unacceptable)

Sources: Odden and Wallace, 2006; Guthrie and Prince, 2008

Different procedures are used to estimate the costs of different types of alternative pay plans

Examples:

1. Open-ended – possible for many eligible participants to earn an award
2. Tournament – restricts costs by placing a cap on the percentage of individuals or schools that can qualify for awards
3. Premium pay plans – offer additional compensation to teachers willing to work in hard-to-staff schools or teach hard-to-fill subjects

Steps for estimating the cost of an open-ended pay plan

1. Information needed:

- maximum number of eligible individuals/groups;
- maximum possible amount each individual or group can earn.

2. Multiply these two numbers for each school year.

3. Project these costs year-by-year because:

- a. It is unlikely that these factors will remain constant;
- b. Some pay plans are structured so that the number of schools eligible to participate – and costs – may increase substantially over time.

Rules of thumb

1. There is no “average” percentage you can reliably use to predict how many teachers/administrators will qualify for awards.
2. Even if it is unlikely that all teachers/schools will earn awards, you must be conscious of your maximum program costs so that you are prepared to pay financial awards to everyone who earns them.
3. The compensation system should be recalibrated periodically because it is likely that more teachers will qualify for rewards over time.
4. However, states and districts should resist pressure to lower standards in order to allow more teachers to qualify for awards.

Estimating probabilities

1. States and districts should also consider collecting prior performance data to estimate the *probability* of test score improvement.
2. This will allow you to present more reasonable estimates of actual program costs, rather than assuming that every teacher or principal will qualify for the maximum award.
3. Estimates can be reasonably produced from one year of prior performance data. However, use at least 2 years of data, if possible, to increase the precision of the estimates.

Steps for estimating the cost of a tournament-style pay plan

1. Determine the maximum percentage or number of individuals who can earn a performance award (e.g., top-performing 20% of teachers, based on test-score gains and positive evaluations).
2. Place an upper limit on the size of the bonus (e.g., \$5,000).
3. Multiply the two numbers.

Steps for estimating the cost of premium pay for teachers in hard-to-staff schools and teachers of hard-to-fill subjects

Approach #1:

1. Determine how big the bonus needs to be in order to be an effective incentive;
2. Calculate how many teachers are needed at how many schools;
3. Multiply the two numbers.

Approach #2:

1. Predetermine how much money the district is willing to spend for teachers who are in scarce supply;
2. Divide the total pool of funds among those eligible to receive it.

Be aware of additional potential costs of operating a performance-pay system

1. costs for paying into a state or district pension fund if bonuses count toward retirement
2. employer's share of taxes and other federal withholdings
3. extra costs associated with administration (e.g., accounting, payroll, research, assessment)
4. funds to design new tests and teacher evaluation systems

How should districts and states structure the payments?

- Teachers may strongly prefer increases to their base pay over bonuses.
- However, there are some compelling reasons to offer annual bonuses instead of rolling awards into base pay:
 1. one-time bonuses make the payment contingent on improving performance each year;
 2. hard to predict who will be top performers – and the appropriate recipients of performance awards – over the next several years.

Rules of thumb

1. Rewards should be paid as close to the period of performance as practicable.

However,

2. Allow enough time for the reasonable delivery of data.
3. Allow enough time for rigorous quality-control checks.
4. Consider a pilot or dry-run year to identify and correct any problems.

What are some common mistakes that can occur if states/districts do not build in sufficient time for quality-control checks?

- identifying the wrong teachers for awards;
- paying teachers the wrong amounts;
- overlooking entire categories of teachers who should have received awards; or
- incorrectly matching teachers to the grades, subjects, and students that they taught.

Potential strategies for sustaining a new compensation system

1. redeploy current state, district, or school resources;
2. redirect future resources;
3. repackage state and federal categorical aid programs;
4. seek additional public funding; and
5. seek philanthropic or corporate support.

Recommendations

1. Balance teachers' desires for pay systems to be as inclusive as possible with administrators' desires to control costs and stay within budget.
2. No matter what type of pay plan is chosen, rigorously project program costs, year by year.
3. Be prepared to pay financial awards to everyone who earns them.

Recommendations (cont.)

4. Pay rewards as close to the period of performance as practicable, but allow enough time for the reasonable delivery of data and rigorous quality-control checks.
6. Begin planning early to secure adequate and stable funding so that the new compensation system is sustainable.
8. States should ensure that any “hidden,” or additional costs of implementing a performance-pay system are not prohibitively expensive and are not simply passed down to school districts.

For discussion

1. What information or lessons learned can you share with other TIF grantees about estimating program costs?
2. When you began implementing your new compensation system, did you discover any hidden or unexpected costs that you did not plan for in your original budget? What did you do?
3. Is your state or district begun using any of the five strategies that have been discussed to sustain a performance-pay system when TIF funding runs out? Have you had better luck with some strategies than others?